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*Cygnus*

**CORPORATION LIMITED**

1 9 7 0      A N N U A L      R E P O R T

ROBERT A. BROWN, JR.  
President and Managing Director  
Home Oil Company Limited

WILLIAM F. JAMES, Ph.D.  
Partner — James, Buffam & Cooper

HARRY I. PRICE  
Chairman of the Board  
Harry Price, Hilborn Insurance Limited

**J. ROSS TOLMIE, Q.C.**  
*Partner — Herridge, Tolmie, Gray, Coyne & Blair*

R. A. BROWN, JR.	President and Chairman of the Board
R. W. CAMPBELL	Executive Vice-President
W. T. WILKINSON	Vice-President and General Manager
R. B. COLEMAN	Secretary
B. B. ROMBOUGH	Treasurer
F. G. MITCHELL	Assistant Secretary
P. M. MacLEAN	Assistant Treasurer

*Riddell, Stead & Co.*

*Macleod Dixon*

Canadian Imperial Bank of Commerce

Crown Trust Company

Class A and Class B Shares  
 Montreal Stock Exchange — Toronto Stock Exchange  
 Calgary Stock Exchange — Vancouver Stock Exchange

## TO THE SHAREHOLDERS

### Financial

The year 1970 saw the gross revenue of Cygnus Corporation increase by \$43,313 to \$770,760 from the \$727,447 recorded in 1969. Expenses for the year also increased, although to a lesser extent, and at \$628,181 were up \$17,015 from the \$611,166 experienced in the previous year. As the earnings of the subsidiary companies were relatively unchanged from 1969, net income for the year increased by 16.5% from \$154,262 in 1969 to \$179,666 for 1970.

The increase in gross revenue was almost entirely due to increased interest paid by the subsidiaries. Dividend income received on your Company's shareholdings in Home Oil and Atlantic Richfield remained almost the same as in 1969. On the expense side there was a substantial reduction amounting to \$56,029, in general administration and amortization expenses, however this was more than offset by an increase of \$73,044 in the interest expense. This increase was mainly due to the higher rates which prevailed in 1970. Early in 1971 the Company's \$5,400,000 U.S. dollar loan, negotiated in 1968 for the purchase of Atlantic Richfield shares, was converted into a Canadian dollar loan. By this conversion your Company was able to realize a foreign exchange saving of \$349,313.

### Investments

There was no change during the year in the Company's shareholding in Home Oil Company Limited which continued to stand at 1,000,000 Class B (voting) shares. The market value of this investment at year end was \$27,000,000. The year 1970 witnessed a number of important highlights in the operating results of Home Oil. For the first time in its history, Home recorded gross

income in excess of \$30,000,000. Crude oil and natural gas liquids production of 18,994 barrels per day was at an all-time high. Likewise, natural gas sales at 89.2 million cubic feet per day set another all-time record. As a result of these production rates, Home's cash flow increased by 13% to \$14,005,000 or \$1.99 per share. Net earnings after extraordinary items amounted to \$5,447,000 or \$0.78 per share as compared to the \$0.66 earned in 1969. The satisfactory cash flow and net earnings results of 1970 were obtained despite the high interest rates which prevailed throughout the year. There has of course been a substantial drop in interest rates over the past few months. Net earnings also were reduced by high depletion costs relating to Home's Alaskan exploration activities.

Home, during the past year, took a number of important steps which will improve both its short and long-term financial position. Among these were the sale of the majority of its shares in Calgary Power Ltd. and a large block of its holdings in Trans Canada Pipelines Ltd. These sales realized approximately \$26,000,000. It recovered all its costs plus interest from the disposition of its 2% investment and commitments in the proposed crude oil pipeline across Alaska, and obtained a \$10,000,000 bank production loan. The Company also renegotiated the terms of certain other outstanding long-term debt which will have the effect of reducing debt payments by approximately \$15,000,000 over the ensuing four or five years.

Home's exploration activity during 1970 included participation in 13 exploratory wells in Alaska, Alberta, British Columbia, England and the North Sea. The most significant result of this program was the discovery of a commercial natural gas reservoir at Malton in Yorkshire, England. The well in the North Sea, in which Home has



A a 6⅜% interest, was spudded in December and is still drilling. The 56,000 acre block on which this well is being drilled is located in the general area of the major oil discovery at the Ekofisk field. Other discoveries also have been made to the north, the northwest and to the south of this block. Home has been expanding its activities abroad and, in association with a number of other companies, recently was granted a licence comprising 454,000 acres off the East Coast of Malta. Home has a 21.25% interest in this play and is the operator for the group. Early in 1971 a consortium, in which Home has a 15% interest, obtained a permit covering 120,000 acres off the West Coast of Italy.

The current outlook for the Canadian oil industry is excellent. The amount of crude oil and natural gas liquids which can be shipped to the United States has been increased and the well head price was also recently raised by 25c per barrel. Home is presently expanding producing and pipeline facilities to ensure that it shares fully in the increased demand. The natural gas market continues to expand and Home has an active exploration program planned for 1971 in prospective gas areas of Western Canada.

In addition to its shareholding in Home, your Company continues to hold its original investment in Atlantic Richfield Company of 50,000 common shares. Unfortunately, the market value of these shares continues to be adversely affected, due in part to the continuing delay in granting a construction permit for a pipeline from the North Slope of Alaska. It is encouraging to note that Atlantic recently made a significant oil discovery located approximately 25 miles west of the Prudhoe Bay field. Your management remains confident of the long-term potential of this major U.S. integrated oil company. Shareholders were advised in our Interim Report that

Community Antenna Television Limited, in which your Company has a 27.3% interest, was one of the successful applicants for a permit to provide cablevision service in the City of Calgary. It was also announced that Community Antenna had been allotted the Northern half of the City but this decision was subsequently changed and Community Antenna was awarded the Southern half which contains approximately the same number of households. This major permit change caused certain delays but engineering and design are now well underway and it is expected that initial service will be available towards the end of 1971.

### Subsidiary Operations

The combined net profit of our two subsidiary companies, Empire Management Limited, the manager of Natural Resources Growth Fund Ltd. and Thio-Pet Chemicals Ltd., a manufacturer of carbon disulphide and hydrogen sulphide, was relatively unchanged from the \$37,981 reported in 1969. However, it should be noted that interest charges against these subsidiary company operations were \$41,961 greater in 1970 than in the previous year.

### Other

Your Company, like the majority of the Canadian business community, is deeply concerned with the present state of our country's economy. Current high unemployment and the uncertainty with regard to the proposed tax reforms as suggested in the White Paper are both areas of continuing concern. Nevertheless, there currently are definite signs of improvement in many of our basic industries and in the long term, there can be no doubt as to the potential for growth in our Canadian economy.

Submitted on behalf of the Board

Calgary, Alberta  
March 4, 1971.

R. A. Brown  
Chairman and President

**STATEMENT OF SOURCE AND USE OF FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 1970**

	<u>1970</u>	<u>1969</u>
<b>FUNDS WERE OBTAINED FROM</b>		
Operations		
Net earnings .....	\$179,666	\$154,262
Charges (credits) to earnings not requiring funds		
Subsidiary companies' earnings .....	(37,087)	(37,981)
Amortization of share issue and organization expense and other non-cash charges .....	—	24,134
	<u>142,579</u>	<u>140,415</u>
Repayment of advances by subsidiary companies .....	31,500	123,512
Issuance of Class B shares .....	<u>262,800</u>	<u>105,000</u>
	<u>\$436,879</u>	<u>\$368,927</u>
<b>FUNDS WERE USED FOR</b>		
Advances		
Subsidiary .....	\$ 94,000	\$ —
Community Antenna Television Limited .....	18,750	—
Other assets (Note 4) .....	262,800	—
Dividends		
Preferred shares .....	—	39,798
Class A shares .....	<u>137,029</u>	<u>111,455</u>
	<u>512,579</u>	<u>151,253</u>
INCREASE (DECREASE) IN WORKING CAPITAL .....	<u>(75,700)</u>	<u>217,674</u>
	<u>\$436,879</u>	<u>\$368,927</u>

*The accompanying notes are an integral part of this financial statement.*





CORPORATION LIMITED

BALANCE SHEET AS

ASSETS

	<u>1970</u>	<u>1969</u>
CURRENT ASSETS		
Cash .....	\$ 100,021	\$ 173,648
Dividends receivable .....	250,000	250,000
Accrued interest receivable .....	46,178	34,985
	<u>396,199</u>	<u>458,633</u>
INVESTMENTS (Note 1)		
Home Oil Company Limited .....	14,879,059	14,879,059
Atlantic Richfield Company .....	5,639,184	5,639,184
Other .....	98,750	80,000
	<u>20,616,993</u>	<u>20,598,243</u>
INVESTMENT IN AND ADVANCES TO WHOLLY-OWNED SUBSIDIARIES (Note 2) .....	2,102,760	2,003,173
OTHER ASSETS (Note 4) .....	262,800	—
Approved on behalf of the Board:		
<i>R. A. Brown Jr.</i> Director		
<i>Robert W. Campbell</i> Director		
	<u>\$23,378,752</u>	<u>\$23,060,049</u>

DECEMBER 31, 1970

## LIABILITIES

### CURRENT LIABILITIES

Bank indebtedness, secured by investments .....	\$ 589,000	\$ 574,000
Accounts payable .....	14,567	16,301
	<u>603,567</u>	<u>590,301</u>

### LONG-TERM DEBT (Note 3)

Bank indebtedness, secured .....	5,799,938	5,799,938
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## SHAREHOLDERS' EQUITY

### CAPITAL STOCK (Note 4)

Authorized		
375,000 Preferred shares of the par value of \$20 each, issuable in series		
4,000,000 Class A shares of no par value		
4,000,000 Class B shares of no par value		
Issued		
1,370,289 Class A shares (1969 - 1,370,289) .....	5,740,352	5,740,352
2,697,374 Class B shares (1969 - 2,624,374) .....	10,132,365	9,869,565
	<u>15,872,717</u>	<u>15,609,917</u>

### SURPLUS

Capital surplus (Note 4) .....	92,500	92,500
Retained earnings .....	1,010,030	967,393
	<u>16,975,247</u>	<u>16,669,810</u>

	<u>\$23,378,752</u>	<u>\$23,060,049</u>
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**STATEMENT OF EARNINGS**  
FOR THE YEAR ENDED DECEMBER 31, 1970

	<u>1970</u>	<u>1969</u>
<b>REVENUE</b>		
Dividends .....	\$588,048	\$586,893
Interest .....	182,712	140,554
	<u>770,760</u>	<u>727,447</u>
<b>EXPENSE</b>		
General and administrative .....	63,767	102,411
Interest .....	564,414	491,370
Amortization of share issue and organization expense .....	—	17,385
	<u>628,181</u>	<u>611,166</u>
Net earnings before subsidiary companies' earnings	142,579	116,281
Subsidiary companies' earnings (Note 2) .....	37,087	37,981
<b>NET EARNINGS (Note 5)</b> .....	<u>\$179,666</u>	<u>\$154,262</u>
<b>EARNINGS PER COMMON SHARE</b> (calculated according to dividend priorities attaching to each class of shares, and on basis of the average number of shares outstanding)		
Class A Shares .....	\$ .10	\$ .10
Class B shares .....	<u>\$ .02</u>	<u>—</u>

**STATEMENT OF RETAINED EARNINGS**  
FOR THE YEAR ENDED DECEMBER 31, 1970

	<u>1970</u>	<u>1969</u>
<b>BALANCE AT BEGINNING OF YEAR</b> .....	\$ 967,393	\$ 964,384
Net earnings .....	179,666	154,262
	<u>1,147,059</u>	<u>1,118,646</u>
Dividends declared		
Preferred shares .....	—	39,798
Class A shares .....	137,029	111,455
	<u>137,029</u>	<u>151,253</u>
<b>BALANCE AT END OF YEAR</b> .....	<u>\$1,010,030</u>	<u>\$ 967,393</u>

*The accompanying notes are an integral part of these financial statements.*



# NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 1970

## 1. INVESTMENTS

Details of investments are as follows:

	Number of Shares	Cost	Quoted Market Value Dec. 31, 1970
Home Oil Company Limited			
Class B shares	1,000,000	\$14,879,059	\$27,000,000
Atlantic Richfield Company	50,000	5,639,184	3,315,000
Community Antenna Television Limited			
Shares	40,000	80,000	—
Advance	—	18,750	—
		<u>\$20,616,993</u>	

## 2. INVESTMENTS IN AND ADVANCES TO WHOLLY-OWNED SUBSIDIARIES

The accounts of the company's wholly-owned subsidiaries, Thio-Pet Chemicals Ltd. and Empire Management Limited, are not consolidated with those of the company because of the dissimilarity of the operations of the company and its subsidiaries. However, full provision has been made in these financial statements for the subsidiaries' losses, net of earnings, since dates of acquisition. Investments in and advances to wholly-owned subsidiaries consist of:

Shares, at cost	\$ 88,445
9% Note	<u>2,060,000</u>
	2,148,445
Losses, net of earnings, from dates of acquisition	<u>(45,685)</u>
	<u>\$2,102,760</u>

## 3. LONG-TERM DEBT

Bank indebtedness shown under long-term debt comprises a \$5,400,000 U.S. dollar bank loan, repayable on demand with interest at 8¼% per annum. This loan was incurred in 1968 to purchase shares of Atlantic Richfield Company and is secured by the company's investments in Atlantic Richfield Company and Home Oil Company Limited.

#### 4. CAPITAL STOCK

##### (a) *Capital Surplus*

Capital surplus arose in prior years on purchase and cancellation of preferred shares.

##### (b) *Dividends — Class A and Class B Shares*

The holders of Class A shares are entitled to cumulative dividends of 10 cents per share per annum payable on July 1. After payment of these dividends, the company may pay dividends up to 10 cents per share per annum to the Class B shareholders. Dividends in excess of the foregoing, in any year, are payable equally on Class A and Class B shares.

##### (c) *Share Options*

During 1970, the Company amended the exercise price on outstanding share options to \$3.60 per share (the market price per share at date of amendment), and issued 73,000 Class B shares (including 70,000 shares to officers and directors) pursuant to share option agreements. Notes totalling \$262,800 were received from the optionees in payment of their subscriptions. The notes, which are included on the balance sheet under other assets, are secured by the purchased shares, are non-interest bearing and are payable at the earlier of the date of voluntary termination of employment of the optionees, the date of sale of the shares by the optionees, or 1980.

At December 31, 1970, 59,000 Class B shares are reserved for issuance to employees of the Company and its subsidiary and affiliated companies under the terms of an Incentive Share Option Plan, of which options are outstanding to purchase 6,000 shares at the price of \$3.60 per share exercisable up to December 22, 1976.

#### 5. INCOME TAXES

The Company has paid no income taxes as its revenue consists mainly of dividends from a taxable Canadian corporation; such dividends are excluded from taxable income.

#### 6. COMMITMENT

The Company may be obligated to guarantee or otherwise provide up to a maximum of \$2,187,500 in respect of the estimated debt requirement of Community Antenna Television Limited.

#### 7. EXECUTIVE REMUNERATION

During 1970 the Company paid \$8,400 in directors' fees to its seven directors, and no remuneration to its five officers as such. Two of the officers are also directors. The subsidiaries paid no remuneration to the Company's officers and directors.



## AUDITORS' REPORT

TO THE SHAREHOLDERS  
CYGNUS CORPORATION LIMITED

We have examined the balance sheet of Cygnus Corporation Limited as at December 31, 1970 and the statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 19, 1971.

RIDDELL, STEAD & CO.  
Chartered Accountants





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CORPORATION  
LIMITED

**INTERIM REPORT**  
**to the**  
**SHAREHOLDERS**

For the First Half of 1970

**CALGARY, ALBERTA**

# CYGNUS CORPORATION LIMITED

## STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED JUNE 30, 1970

REVENUE	1970	1969
Dividends . . . . .	\$294,964	\$291,220
Interest . . . . .	89,936	70,651
	<u>384,900</u>	<u>361,871</u>
EXPENSE		
General and administrative expenses . . . . .	35,283	40,100
Interest expense . . . . .	293,791	224,505
Amortization of share issue and organization expense . . . . .	—	17,385
	<u>329,074</u>	<u>281,990</u>
Net earnings before subsidiary companies' earnings . . . . .	55,826	79,881
Subsidiary companies' earnings (loss) . . . . .	( 12,984)	28,017
NET EARNINGS . . . . .	<u>\$ 42,842</u>	<u>\$107,898</u>



## STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE SIX MONTHS ENDED JUNE 30, 1970

### FUNDS WERE OBTAINED FROM

	1970	1969
Net earnings before subsidiary companies' earnings. . . . .	\$ 55,826	\$ 79,881
Add: Amortization of share issue and organization expense and other non-cash charges . . . . .	—	24,135
	<u>55,826</u>	<u>104,016</u>
Repayment of advances by subsidiary companies. . . . .	33,500	143,511
Issuance of Class B shares . . . . .	252,000	105,000
	<u>\$341,326</u>	<u>\$352,527</u>

### FUNDS WERE USED FOR

Investment in Community Antenna Television Ltd. . . . .	\$ —	\$ —
Advances to subsidiary companies . . . . .	72,000	—
Redemption of 5½% preferred shares . . . . .	—	—
Dividends — 5½% preferred shares . . . . .	—	39,798
Dividends — Class A shares . . . . .	137,029	111,455
	<u>209,029</u>	<u>151,253</u>
Increase (decrease) in working capital . . . . .	132,297	201,274
	<u>\$341,326</u>	<u>\$352,527</u>

# CYGNUS CORPORATION LIMITED

## TO THE SHAREHOLDERS:

Net earnings for the first half of 1970 amounted to \$42,842, down \$65,056 from the \$107,898 earned during the same period in 1969. Gross revenue amounted to \$384,900, an increase of \$23,029 over gross revenue of \$361,871 realized in the first half of 1969.

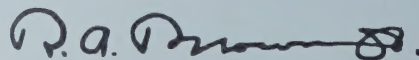
Expenses amounted to \$329,074, an increase of \$47,084 over those incurred in the corresponding period in 1969. The increased interest charges of \$69,286 in 1970 were partially offset by reductions in administrative and other expense items.

The operations of our two subsidiary companies showed a combined loss of \$12,984 as against a \$28,017 profit reported during the same period last year. The serious decline in the stock markets had an adverse effect on the income of Empire Management Limited and the general slow down of the economy resulted in somewhat lower sales by Thio-Pet Chemicals Ltd. However, the two subsidiaries did contribute an additional \$19,285 in interest payments to Cygnus during the first six months of this year.

The market values of the Company's investments in both Home Oil Company Limited and Atlantic Richfield Company have also reflected this general decline in security markets. The Company's holdings of 1,000,000 Class B shares of Home, carried at a cost of \$14,879,059 had a market value of \$15,375,000 at June 30, 1970 and \$17,250,000 at the date of this report. Similarly, the market value of the investment in 50,000 shares of Atlantic Richfield, acquired at a cost of \$5,639,184, declined to \$2,457,000 at June 30, 1970. The value of Atlantic shares have improved somewhat since then with the current market value at \$2,987,000.

Community Antenna Television Limited, a company in which Cygnus has a 27.3% interest, was one of the two successful applicants for permits from the Canadian Radio Television Commission to provide cablevision service in the Calgary area. Its permit will cover the northern half of Calgary and will contain approximately 50,000 households. Construction of distribution facilities will begin in the latter part of 1970 and it is anticipated that the initial cablevision service would be available to subscribers in 1971.

On behalf of the Board of Directors



R. A. BROWN, Jr.  
Chairman and President

Calgary, Alberta  
August 12th, 1970